

ADRIANNA KEZAR

Increasing Access for Low-Income Students

and Making Financial Education a Priority for Higher Education

YOU CANNOT pick up a newspaper today without reading about the severe financial and economic conditions facing our society. While the reasons for the current crisis are extremely complex, it is clear that our financially illiterate culture is one major contributing factor. What responsibility do we as educators have for this lack of foundational knowledge that

threatens to erode the health and well-being of our society?

In addition, we know that students from low-income families have reduced opportunities to participate in higher education. And according to a recent study (Wyner, Bridgeland, and DiIulio 2007), even high-achieving lower-income students are less likely to graduate from college than their higher-income peers (59 percent versus 77 percent). The cost of attending postsecondary institutions continues to rise; in many states, merit-based aid programs have replaced need-based aid; and loans are on the rise. On average, low-income students face an \$8,000 gap between the total amount of financial aid they receive and the annual cost of tuition.

While widespread financial illiteracy and reduced opportunities for low-income students to participate in higher education may seem unrelated, both challenges can be addressed through Individual Development Accounts (IDAs), an existing but widely underutilized tool. Indeed, IDAs have the potential both to increase access and retention of low-income students and to fulfill higher education's commitment to offer financial education.

ADRIANNA KEZAR is associate professor of higher education at the University of Southern California.

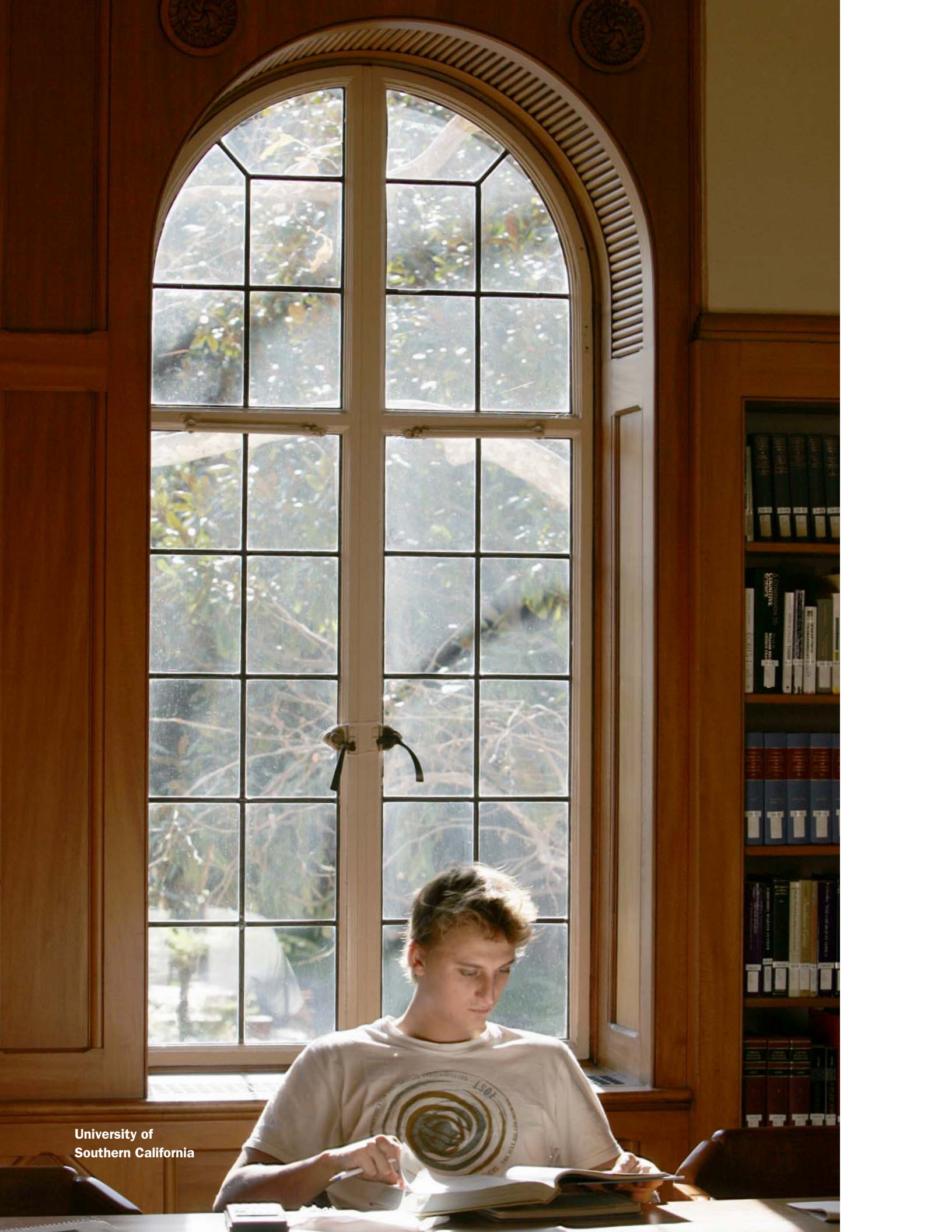
What are IDAs?

An IDA is a financial tool designed to encourage low-income families to save toward and acquire an appreciating asset—for example, buying a first home, paying for college, or starting a small business. IDAs typically include a matched savings account, financial literacy education, training to acquire the asset, and critical case management. That is, IDAs offer not only matched funds, but also the opportunity to foster critical new life skills and behaviors with respect to financial management, credit, and debt.

Research on IDAs has shown that poor families can save and build assets if provided institutional supports parallel to the incentives available to middle- and upper-class families—for example, 401Ks that provide employer-match and tax incentives—and if provided with the right education, support, and planning tools. IDAs took on national recognition when Congress funded the American Dream Demonstration in 1993 and then the Assets for Independence Act (AFI) of 1998, which provided federal funding to support IDAs. The federal government provides funding for the matched savings accounts through the AFI legislation, and some individual states also offer such funding. In addition, private organizations can establish and fund IDAs. Hundreds of organizations now offer IDAs across the country.¹

So how do IDAs work for students? A low-income student simply opens an account with a participating community organization and starts saving monthly. Often, he or she is required to take financial education training before enrolling. Over two to three years, the student saves a total of \$1,000 to \$2,000,

Helping students become financially literate and increasing college access and success for low-income students are both ethical imperatives



which amount is matched by the organization up to \$4,000 to \$8,000 per student (at a match rate of 1:1, 2:1, or even as high as 8:1). The student's savings and match are held in escrow by the organization and then paid directly to the educational institution. As the student saves, he or she receives case management—assistance with budgeting and advice on purchasing their asset—as well as financial education training, if that has not already occurred.

Funds from AFI-funded IDAs can be used to cover tuition, books, computers, and required academic fees. To be eligible for participation, the participant's income cannot exceed 200 percent of the federal poverty level. The federal IDA also has a specific time limit: savers are allowed no more than four years to save and spend down the money. The duration of nonfederal savings plans range from one to four years, depending on how the community agency structures the grant.

The research study

To date, the nonprofit organizations that offer IDAs focus mostly on housing and microenterprise. Since these organizations have little knowledge about education, they need advice on how to design education IDAs—information they have not been able to obtain through partnerships with postsecondary institutions. With support from the Lumina Foundation for Education, the Center for Higher Education Policy Analysis at the University of Southern California conducted a three-year study of education IDAs. The overarching goals of this research project, entitled IDA-PAYS (Postsecondary Access for Your Success), were to examine the potential for increasing IDA use for educational purposes, to explore higher education's involvement with IDAs, and to examine the potential for greater participation. In addition, we explored challenges to and facilitators of growth and expansion of education IDAs and involvement of the postsecondary sector. (More information about the project is available online at www.usc.edu/dept/chepa/IDApays.)

Potential

There are several important interventions and programs available to low-income students, such as the Pell Grant, TRIO, GEAR-UP, and Twenty-First Century Scholars programs. IDAs are not a stand-alone tool, and are best

offered bundled with other programs or services. In our research, we explored ten unique advantages and benefits of IDAs.

1. Access to aid for key student populations.

Three student populations do not have access to the federal financial aid system and could use IDAs to support college going: students who default on their loans, students who lose financial aid because they are not making satisfactory academic progress, and students in nondegree programs. A variety of studies have shown that certain populations—particularly Hispanic students—are hesitant to take out loans (see, for example, Burdman 2005), and IDAs present an alternative with which these populations might be more comfortable. Additionally, adult returning students often receive less subsidized financial aid because they have been working, which is counted against them in the financial aid process.

2. College aspirations and early commitment.

A recent study found that individuals from low-income families that save even a small amount for college (\$100) were more likely to aspire to go to college than a control group of other low-income individuals (Elliott et al. 2007).

3. Incentives for families and communities.

Increasingly, postsecondary institutions that offer outreach programs to families and communities see IDAs as an attractive tool for attracting low-income families—for example, using advertisements that say, “we offer matched savings accounts: you put in \$1, and we give you \$4.” Furthermore, IDAs can reach beyond the individual to affect other children in the family and, potentially, extend to the broader local community.

4. Transfer funding.

Many students do not transfer to a four-year institution from a community college because of the increase in tuition, prematurely ending their education with an associate's degree (or less). IDAs can increase access to four-year institutions for these students.

5. Financial education.

IDAs build financial literacy by requiring participants to attend courses that review core financial knowledge. In addition, through the matched savings account, participants have to follow through with the behavior of saving and planning how to spend the money, thereby developing habits that help break the cycle of poverty.

6. Retention. Many low-income students drop out of college because of financial stress—the

cost of books or the need for a computer or childcare—or because they do not have control over their finances. Students are more likely to fall into the trap of debt if they have not received financial education training. Some campuses have emergency assistance funds to help low-income populations. In our study, postsecondary staff identified the potential of introducing students to IDAs at these emergency moments. Students could begin saving and avoid the next emergency, particularly as many campuses have policies stipulating that emergency funds are to be used only once.

7. Empowerment. The experience of saving, learning, and purchasing an appreciating asset is empowering for low-income individuals. By contrast, when a low-income student receives a scholarship, he or she does not learn any financial habits and may not feel any sense of empowerment. One of the most attractive features of IDAs noted by both nonprofit agencies and TRIO and GEAR UP staff is the empowerment experienced by low-income families that contributes to their education and future success.

8. Campuswide financial literacy. Postsecondary leaders are aware of the broad breakdown in financial literacy on their campuses. IDAs offer the potential to create conversations about the importance of financial literacy. In bringing together expertise on financial education by offering IDAs, leaders in higher education see the potential to create a broader plan for educating all students about financial literacy.

9. Decreased debt burden and default rates. In recent years, financial aid officers and other concerned administrators on campus have noted the increase in loan packaging and the heavy student debt burden. In states such as Colorado, the financial aid process is automated and packages the maximum amount of loans that a student can receive. Students must opt out of loans manually, but they generally do not understand how to do so. As a result, students take out more loans than they need or even want. IDAs can provide an alternative to loans.

10. Leveraging of existing scholarships. Many postsecondary institutions have foundations that raise money for scholarships. These foundations can exponentially increase the amount of scholarship money available by contributing the matched funds for IDAs. College-based foundations can also apply for IDA funding

directly and, thereby, double their scholarship funds. Additionally, programs such as GEAR UP have scholarship monies that they can be increased by partnering to offer IDAs (the sources of matched funds must be private, not federal).

Meeting the potential through better partnerships

How can educational leaders capitalize on this potential and help low-income students? Our research suggests that postsecondary institutions can engage in a set of practices that would make them better partners with the community agencies that currently offer IDAs. We identified five key areas in which postsecondary institutions could partner with community agencies:

- **Recruitment of participants.** Many nonprofits do not work with adults or youth whose goal is education. Working directly with postsecondary institutions or high schools would help them find participants for their existing match savings accounts. IDA practitioners are generally unsure how to recruit and market for education IDAs.
- **Asset-specific education.** Helping IDA participants understand financial aid forms, educational grants and loans, and the pathways to college is something that nonprofits realize can be better offered through a postsecondary institution. Most postsecondary institutions already offer this type of assistance to schools and education nonprofits.
- **Financial education.** Many campuses have a business school, extension, or workforce development office that can easily offer financial education to IDA participants.
- **Case Management.** Many campuses provide special advising to first-generation, low-income students through support programs like TRIO and GEAR UP or through bridge programs and high school outreach. These services can also be utilized to provide case management for IDAs.
- **Match funds or connections for funding.** Almost every campus across the country has scholarship funds for their students that could be leveraged as IDA match funds.

In short, postsecondary institutions already offer many of the components of the IDA, but have not packaged these services for low-income students, created programs aimed at low-income students, or capitalized effectively on existing services.

University of
Southern California



Even if a postsecondary institution decides *not* to offer IDAs with a community agency, it can still be more responsive and conscientious in making IDAs successful. In addition to identifying opportunities for postsecondary institutions and community agencies to work together, we identified several practices that would make postsecondary institutions better partners:

- Make campus staff aware of IDAs; even if a campus does not offer or partner to offer IDAs, students who come to campus may have an IDA.
- Create a campus policy for handling IDAs as part of the financial aid process.
- Set up a campuswide team to administer the policy for how IDAs are handled, making sure that all parties are clear.
- Run institutional data reports to identify low-income students and examine their specific background and needs; conduct focus groups with low-income students to determine challenges they face and ways the institution might support their success. These data can be used to determine which students college staff might direct to a community agency (as well as help decide whether the institution should consider offering IDAs).
- Educate staff about such benefits of IDAs as their potential to create early commitment to college, increase transfer rates, and decrease default rates.
- Recognize if yours is not a good institution to offer an IDA, and refer the IDA participant to a more suitable institution.
- Offer to serve on the advisory board of

community agencies offering IDAs, and connect them with appropriate campuses or education nonprofits to offer IDAs.

Increasing financial literacy for all students

Even if campus leaders decide that the IDA is not a good match for their campus, they can still integrate the ideas from the IDA about financial literacy into the campus curriculum and culture. In our study, campus leaders uniformly registered concern about the increasing debt burden and the culture of financial illiteracy on college campuses.

Campuses should explore financial education curricula that can be integrated into various curricular and cocurricular programs. While free programs are available, many have been developed by banks and do not emphasize the dangers of credit cards. Some that are available for nominal amounts of money (\$500 to \$1,200) provide extensive administrative support and allow for the collection of student data, determination of students' financial knowledge, and assessment of competence over time. We highlight a set of programs on our project Web site (see www.usc.edu/dept/chepa/accounts/resources/financial_resources.pdf). While campuses can certainly design a customized curriculum, looking at some off-the-shelf programs can also be helpful. The curriculum developed by Decision Partners, for example, has already been tested for reliability and validity (see www.decisionpartners.org). In addition, the National Endowment for Financial Education has developed many useful resources

**Campus leaders
should consider
integrating
financial education
into the first-year
experience**

on financial education (see www.nefe.org).

In particular, campus leaders should consider integrating financial education into the first-year experience. We encourage course planners for first-year experiences to refer students for further training, as they do for library research, or to offer in financial education in more than one session. We also urge campus leaders to ensure that their TRIO and GEAR UP programs have a financial literacy component and to make resources—such as financial advisers, financial education curricula, and business school faculty—available to these programs.

Some campuses have staff members who are certified financial counselors, particularly in financial aid or advising. Financial counselors can work with students to help them make better financial decisions and can act as financial coaches. Even if a campus does not have certified financial counselors, it is sure to have well-qualified faculty and staff in a business school, financial aid office, center for working adults, community outreach center, or in extension services. Also, it is important to train academic advisers on financial literacy issues. Many students will not go to the financial aid office with financial problems, but might seek out a campus adviser.

Finally, we recommend the creations of a campuswide steering committee that brings together expertise from various units on and off campus to develop a plan for how to best structure the curricular and cocurricular programs, improve service, and think through other details for making financial education a priority. While the offices and units that can be drawn upon vary from campus to campus, most campuses have individuals with a background in financial literacy. In addition, most communities have resources on financial education. The Internal Revenue Service has regional offices all over the United States that offer free financial education. Community agencies often have experts in financial literacy, and banks also offer free financial literacy education.

Conclusion

Helping students become financially literate and increasing college access and success for low-income students are both ethical

imperatives for higher education, and they are also issues of accountability. Given that the country is currently in a recession—the worst since the Great Depression—financial tools such as matched savings

plans and financial education are critical. In particular, we urge higher education administrators and faculty members to take a stand and make financial education a priority. It is no longer acceptable to stand by and watch more generations of students graduate financially illiterate. We need broad cultural change, and that change needs to start with our education system. Legislators already are beginning to mandate financial education in K–12 education, and it is not inconceivable that they will begin also to consider regulations for higher education. Rather than be legislated into embracing financial education, we ought to show our commitment now to financial education and demonstrate to society and legislators alike that we are holding ourselves accountable for our role in students' financial illiteracy. This would go a long way in building public confidence. □

To respond to this article, e-mail liberaled@aacu.org, with the author's name on the subject line.

REFERENCES

- Burdman, P. 2005. *The student debt dilemma: Debt aversion as a barrier to college access*. Berkeley, CA: Center for Studies in Higher Education.
- Elliott, W., M. Sherraden, L. Johnson, S. Johnson, and S. Peterson. 2007. *College expectations among young children: The potential role of savings*. St. Louis, MO: Center for Social Development.
- Wyner, J. S., J. M. Bridgeland, and J. J. Diiulio. 2007. *Achievement trap: How America is failing millions of high-achieving students from lower-income families*. Washington, DC: Civic Enterprises.

NOTE

1. A directory of federally funded IDA programs in each state is available online at <http://idanetwork.cfed.org>. State and privately funded IDAs are not tracked in any database.